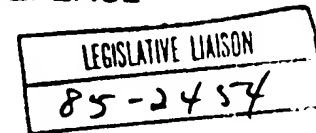


LEGISLATIVE
AFFAIRSOFFICE OF THE ASSISTANT SECRETARY OF DEFENSE
WASHINGTON D C 20301

August 9, 1985

85-2886

MEMORANDUM FOR DISTRIBUTION

60-1

SUBJECT: Chairman Dingell's Investigation of General Dynamics, the Defense Acquisition Process, Industrial Security, DoD Standards of Conduct and Foreign Military Sales

Commencing on or about 16 September, Chairman Dingell intends to begin a series of up to nine hearings on General Dynamics (GD), the Defense Acquisition Process, Industrial Security, DoD Standards of Conduct and Foreign Military Sales. He plans to hold hearings on Mondays and Fridays through the conclusion of this series of hearings. Although the order and structure of the hearings are not definite at this point, the Subcommittee on Oversight and Investigations plans to cover the following topics and call the following witnesses.

One hearing will cover the effect of foreign military sales on American industry and the balance of payments. In particular, this hearing will attempt to demonstrate that offsets in the foreign military sales program adversely affect the US economy. The subcommittee plans to use the F-16 program as a case study. A second hearing will focus almost exclusively on General Yoon, a Korean sales consultant for GD. The thrust of this hearing will be to determine whether GD and the defense industry engage in foreign bribery. The Secretary of the Air Force will be requested to testify regarding spare parts issues and Air Force Management Systems Deputy, A. Ernest Fitzgerald's recent performance evaluation. The Secretary of the Navy will be invited to testify regarding fraud in Navy submarine contracts, distribution of gratuities and security of classified information at Electric Boat. Secretary Weinberger will be asked to testify about various problems in the defense acquisition process. Of particular interest in Secretary Weinberger's hearing will be the perceived retreat from the Secretary's "get tough" certification policy, revocation of security clearances in the cases of Lester Crown and other GD officials, a damage assessment, and "leaks" investigation in the case of P. Takis Veliotis, the revolving door issue as exemplified by Mary Ann Gilleece, procurement reform and the distribution of illegal gratuities by defense contractors. According to subcommittee staff, no subpoenas are planned for DoD witnesses because our cooperation has been satisfactory to the subcommittee.

For your information, attached to this memorandum are two media articles offering further insight into the upcoming hearings.

Addressees are reminded of ASD (Legislative Affairs) earlier request (attached) to coordinate all contacts with Chairman Dingell's Committee with this office.

VTR
Ted Hess
Ted Hess
Lt Col, USMC
Special Assistant
for Intelligence

Attachments

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improvements in wine purchasing and sales can boost both sales and profits. Giuseppe of Gam. So can educating his customers—and, by extension, his customers—about wines. Giuseppe currently offers to pay for his servers' subscriptions to the Wine Spectator, an industry journal.

Harold Cam, a co-owner of Le Pavillion, says that 25 percent of his restaurant's revenue comes from wine sales, which are growing steadily. "His people are becoming more educated about wine," he says, "they are drinking better wines."

Wine sales also represent a significant part of the profits at Wolin's restaurants, but he believes that restaurants that depend heavily on alcohol for profits "are a thing of the past." "Our operations are very different. We make money all along the way. We're in the food business, and we tend to see wine as an enhancement to the dining experience."

All of Wolin's restaurants are now outfitted with Cruvenet's, which are wine storage cabinets that keep open bottles fresh for lengthy periods of time. A Cruvenet allows restaurants to serve more expensive wines, which were previously available only by the bottle, one glass at a time.

"Cruvenet's is more of a merchandising tool," says John Laytham, the executive vice president of Clyde's, where liquor sales have slipped by 15 percent in recent years while wine sales have increased by 5 percent. "When wine drinkers see it, they know they have an alternative to the house wine without buying a whole bottle."

Cruvenet's purchasing operation allows it to add 100 sorts to an average of 25 percent to the selling price, Laytham reports. Because his people now buy for three Clyde's restaurants and the Old Shoin Grill, they cannot better deals, he says. And they are traveling harder to get them. Every winter, for example, when the market is glutted, the chain buys about 25,000 pounds of Nantucket scallops and freezes them for use throughout the year. Although the purchase requires some \$100,000 in cash, Laytham says, it keeps prices low and quality high all year. And rather than keeping crab dishes on the menu when the price of crab meat shoots to \$15 a pound, Clyde's simply replaces them on the menu with seasonal fare.

While many restaurant owners are turning their attention to other parts of the menu in order to offset the bear market in liquor sales, Boss Shepherds has grabbed the liquor bull by the horns. It has stocked up with 312 brands of liquor (at last count) and repositioned itself as a neighborhood eatery and drinkery.

His co-owner, John Colamacco, reports that he sees more a switch of preferences than a drop in profits. He says that sales of so-called broad liquors (bourbons, scotch, and whiskeys) have simply shifted to clear liquors (vodka and rum) and cordials and top-shelf drinks, where the margins are lower but the price is high enough to compensate for it.

"We're doing pretty well," says Colamacco. "But if I knew a few years ago what I now know about the change in people's eating and drinking habits, I wouldn't try to make it in this sort of business again."

Still, he says, there's hope for the distillers of hard liquor. "I've got a whole group of women who come in here once a week and order bourbon and water all around," Colamacco notes. "There's some."

News Reel

JUST THE FACTS, MA'AM IF THE GOVERNMENT CAN GET SOME SECRETARIES FROM GENERAL DYNAMICS TO SQUEAL, THEIR BOSSES MAY BE HEADED FOR THE PEN

The executives of General Dynamics surely have more important things on their minds these days than what their secretaries are doing, inasmuch as the nation's third-largest defense contractor is under investigation, along with 44 other defense firms, for a variety of alleged abuses in government contract work, ranging from cost and labor mischarges to filing false expense claims.

But that may soon change. In fact, the testimony of some secretaries in General Dynamics's Washington office may turn out to be a crucial part of an inquiry that's being conducted by the House Subcommittee on Oversight and Investigations.

The subcommittee's investigators are anxious to talk to the secretaries because some of their bosses may have not only improperly charged the government for entertaining but may have wine and dined government and military officials—a violation of a federal law that prohibits defense contractors from so much as buying lunch for a government employee.

"Because we have been seeing a lot of vouchers without names and finding evidence contrary to what we have been told [by General Dynamics's executives], we want to interview their people. But first we want to talk to their secretaries," says Jeff Hodges, a special assistant to the subcommittee. "Our thinking is that, first, the secretaries are more likely to be honest and forthcoming than their bosses; and second, they were in a position to know a lot."

A lot, specifically, about the extravagant entertaining that the company has allegedly charged to the government as "travel expenses." The subcommittee's staff estimates that since 1978 General Dynamics has billed the government for \$5 million worth of expressly unallowable costs, most of which showed up in an audit of the company's records as "business conferences" that were held at local country clubs and restaurants. Whether or not those lunches and parties involved people who were in a position to influence the government's contract decisions is hard to determine, since names were rarely attached to the expense vouchers, despite a government requirement to do so. In fact, an internal memo that the subcommittee secured shows that at one time General Dynamics's employees were specifically instructed not to write down the names of the people they entertained.

"We feel we have a pretty good indication that the Washington office was wrong and dining people improperly," says Hodges. "And we're hoping to get some real hard evidence to show that."

Among the items singled out by the subcommittee's researchers:

—Receipts show that in 1982 Edward LeFevre, General Dynamics's vice president for government relations, had 528 "business conferences" and that Raymond Kozen, the

whose numbers prompted a member of the subcommittee to ask, "Can the human body tolerate this much entertainment?"

—Liquor bills, including one for \$864 from an Air Force Association function that was held at the Sheraton Washington, reveal a corporate taste for Smirnoff vodka, Cury Sark scotch, Gordon's gin, Baccardi rum, and Grand Marnier.

—Bills for several "special receptions" total as much as \$17,000 at a time. Two particularly expensive receptions, for 275 and 300 people, were held at Congressional Country Club; the liquor bills for them were more than \$2,000 each. For another reception, \$425 worth of cooked brisket, sausage, and barbecue sauce was shipped from Texas. The \$340 liquor bill for that reception seems particularly ironic in light of one of the purposes of the gathering: "discussion of drug and alcohol abuse."

Perhaps the most damaging documents found in General Dynamics's files show that the company entertained retired and active military officials at an annual Washington dinner known as the Carabao Wallow. The guest lists from the 1983 and 1984 dinners show that one of the military men who was seated at General Dynamics's table was Michael Birch, an Air Force lieutenant colonel who now works for McDonnell Douglas.

Until May, Birch was the assistant secretary of defense for public affairs. In that capacity, he sent a memo to top-level military officials earlier this year reminding them that they are allowed to attend the Carabao Wallow only if the cost of the dinner is paid for by themselves or by "any other source that is neither engaged in, nor seeks business or financial relations of any sort with, any DOD component."

The Carabao Wallow documents are not the only indication that General Dynamics may have been in the habit of improperly courting military favor. Attempting to fill in some of the missing names from other events and business meetings, the subcommittee's staff interviewed a random selection of high-ranking Air Force and navy officers, and Department of Defense officials, all of whom admitted to having received some form of gratuity from General Dynamics—some on more than one occasion. This was discovered, according to Hodges, after General Dynamics's executives denied that they had ever entertained military officers.

Given such apparent subterfuge, the subcommittee's investigators thought it might be more productive to interview the executives' secretaries before they talked to the executives again. But so far they have not received permission to do so.

"The company refused to let us interview the secretaries," says Hodges. "They said, 'They don't know anything. They haven't done anything.' But we think they know quite a bit."

An argument about the type of legal representation that the secretaries should have if and when they are interviewed stalled negotiations earlier this summer, which means that the investigators probably won't get another shot at the interviews they want until sometime this fall. By then, the tone of the subcommittee's request may well have changed. "I dare say that if there is another refusal, I dare say that if there is another refusal," says



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Aerospace Daily

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DINGELL UNIT PLANS SERIES OF HEARINGS

The House subcommittee chaired by Rep. John Dingell (D-Mich.), after a summer out of the headlines, will open a busy series of hearings in the fall with the major focus on payments to agents made in connection with foreign arms sales, congressional sources said yesterday. The hearings will begin in mid-September.

The oversight and investigations subcommittee of the House Energy and Commerce Committee, these sources said, will hold hearings in about seven different areas. In addition to foreign sales payments, the sources added, the hearings will delve into offset agreements, classified subjects, the testimony of Navy Secretary John Lehman, the issue of the poor performance ratings the Air Force gave its most famous "whistleblower," A. Ernest Fitzgerald, and contractor overhead charges.

Of particular interest to the subcommittee is the fact that it was never contacted by the Air Force even though Fitzgerald was detailed to the subcommittee for part of the rating period.

The subcommittee already has underway investigations of alleged questionable practices in connection with payments made in the sale of General Dynamics F-16 fighters to Korea, Turkey, Egypt and Greece (DAILY, May 24).

Unlike the hearings earlier this year into GD overhead claims, these will not focus on one defense contractor but will involve several major contractors, the sources added.

Sources have said that the subcommittee's interest in offsets—in which the U.S. arms seller arranges for the sale of a foreign nation's products in return for buying the U.S. system—grows out of a desire to sort out the legitimate deals from those used as a vehicle to leave dollars in a country.

Dingell's interest in Lehman's testimony has been heightened by the Navy secretary's award of over \$1 billion in contracts to GD's Electric Boat Div. since Defense Department Inspector General Joseph Sherick's recommendation last April to debar GD.

The sources said that Dingell still is interested in having Defense Secretary Caspar Weinberger testify despite the resistance of the Pentagon chief. Dingell feels that Weinberger's testimony is necessary, congressional sources said, and that the secretary will eventually appear. Weinberger has refused to testify so far on grounds that he does not want to set a precedent of testifying before a subcommittee.

ARMS CONTROL...from Pg. 4-SR

revolutionary Soviet rhetoric may be, in foreign policy the USSR is strictly within the ancient Realpolitik tradition of an imperial state. As Samuel P. Huntington has remarked,

The Soviet Union and the Soviet system constitute the last of the major nineteenth-century empires. . . . Perhaps the most important historical function of the Bolshevik Revolution was to enable the Czarist empire to avoid the fate of its counterparts by providing it with a new ruthlessly effective leadership.

Diplomacy is governed by the "correlation of forces." Treaties last only as long as they serve the national interest. Thus the Soviets have violated most of their agreements. Though this is often cited as if it were a unique record of irresponsibility, in truth it is the standard practice of nations throughout history. It is the American view of treaties as matters of principle rather than convenience that is radical, based as it is on the assumption of a universally accepted system of values and interests on which interna-

tional law can rest. There is, of course, no such system. As Laurence W. Beilenson reminds us in his classic study, *The Treaty Trap*:

Wherever and whenever there have been political treaties, troubles to test them, and a strong interest in breaking them, the paper chains have severed. . . . Treaty-reliance has not been as constant as unreliability, but the disease has recurred so often that it can be classified as an occupational disease of statesmen.

In the modern era, as in earlier times, the most important components of national security have been deterrence and an active defense should deterrence fail. Arms-limitation agreements have not contributed significantly to security and in some cases have undermined it. This has been true especially of arms limitations divorced from wider political settlements and not linked to a prior reduction in tensions. It is time that the American public as well as its official representatives recognize how the world of international politics really works and support a return to the traditional methods of statecraft. □



LEGISLATIVE
AFFAIRS

THE ASSISTANT SECRETARY OF DEFENSE
WASHINGTON DC 20301

June 27, 1985

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
UNDER SECRETARIES OF DEFENSE
ASSISTANT SECRETARIES OF DEFENSE
GENERAL COUNSEL
INSPECTOR GENERAL
ASSISTANTS TO THE SECRETARY OF DEFENSE
DIRECTOR, DEFENSE INVESTIGATIVE SERVICE
DIRECTOR, DEFENSE CONTRACT AUDIT AGENCY

SUBJECT: Congressman Dingell's Investigation of General
Dynamics, the Defense Industry and the Defense
Acquisition Process

Since January 1985, Chairman Dingell's Subcommittee on Oversight and Investigations of the House Energy and Commerce Committee has been conducting a series of hearings in connection with its investigation of the defense industry and the defense acquisition process, industrial security, and DoD standards of conduct. The subcommittee plans to resume its hearings in July and is expected to request testimony from the Secretary of the Navy and the Secretary of Defense.

In order to keep Secretary Weinberger adequately informed of the areas of current interest to the subcommittee, you are requested to coordinate all correspondence, information, meetings and briefings requested by the subcommittee or its representatives with my office. My point of contact for this issue is Lieutenant Colonel Ted Hess, extension 73782.

A handwritten signature in cursive script, reading "Russ Rourke", is positioned above the printed name.

Russell A. Rourke